

**The Treasury Inspector General for Tax
Administration Can Rely Upon Data on the
Electronic Disclosure Information
Management System for Its Statutory Review**

March 2001

Reference Number 2001-10-051

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

March 6, 2001

MEMORANDUM FOR CHIEF COMMUNICATIONS AND LIAISON

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Treasury Inspector General for Tax Administration Can Rely Upon Data on the Electronic Disclosure Information Management System for Its Statutory Review

This report presents the results of our review of the accuracy and completeness of the Internal Revenue Service (IRS) data on the Electronic Disclosure Information Management System (E-DIMS) regarding the population of cases from which the Treasury Inspector General for Tax Administration (TIGTA) will select its statistical samples when performing the statutorily mandated audit.

In summary, the TIGTA can rely upon the information on the E-DIMS when performing the statutorily mandated audit of the appropriateness of the IRS' denials of taxpayers' written requests for information. Our limited tests provided reasonable assurance that selected information on the E-DIMS is accurate and complete. During our review, we identified one procedure that should be changed to ensure that revised response dates are accurately input to the E-DIMS. Although inaccurate revised response dates do not affect the TIGTA's reliance on the system for its statutorily mandated audit work, revised procedures would better protect taxpayers' rights.

We recommended that IRS Disclosure management change their current procedures to require Disclosure personnel to state the actual response date in voluntary extension letters, instead of the number of additional calendar days they are requesting.

Disclosure management agreed with the recommendation in this report. The full text of their comments is included as an appendix.

Please contact me at (202) 622-6510 or Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500, if you have any questions.

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Executive Summary

Section 1102(d)(3)(a) of the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (RRA 98)¹ requires the Treasury Inspector General for Tax Administration (TIGTA) to perform periodic audits of the appropriateness of the IRS' denials of taxpayers' written requests for information on the basis of Internal Revenue Code (I.R.C.) § 6103 (2000) or the Freedom of Information Act (FOIA) exemption (b)(7).²

The IRS Disclosure function recently implemented a new management information system, the Electronic Disclosure Information Management System (E-DIMS), which contains data regarding written requests for information. The E-DIMS is a national database that allows Disclosure personnel to enter data directly into the system using the IRS Intranet and provides the local IRS offices with national query capabilities. The IRS is continuing to enhance this new management information system.

We reviewed the E-DIMS to determine if the TIGTA can rely upon the accuracy and completeness of IRS data regarding the population of cases from which the TIGTA will select its statistical samples when performing the statutorily mandated audit.

Results

Overall, the TIGTA can rely upon the information contained on the E-DIMS when performing the statutorily mandated audit of the appropriateness of the IRS' denials of taxpayers' written requests for information. The limited audit tests provided reasonable assurance that selected information on the E-DIMS is accurate and complete. For example, the system was 95 percent accurate for the information the TIGTA will use when performing its review of denied requests and 100 percent complete for the cases reviewed.

Corrective action is needed to ensure that revised response dates are accurately input to the E-DIMS. Although inaccurate revised response dates do not affect the TIGTA's reliance on the system for its statutorily mandated audit work, accurate input would improve the reliability of information on the system and better protect taxpayers' rights.

¹ Pub. L. No. 105-206, 112 Stat. 702 § 1102(d)(3)(a).

² 5 U.S.C. § 552(b)(7) (1996).

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Information on the System Can Be Relied Upon for the Statutory Review

Limited testing of specific data on the E-DIMS identified a 95 percent accuracy rate for the information the TIGTA will use to perform its review of denied requests. Additionally, the audit tests provided reasonable assurance that the E-DIMS is complete. We selected a judgmental sample of 120 closed case files from 4 Disclosure sites and verified that all cases were recorded on the E-DIMS as required. These results provide reasonable assurance that the TIGTA can rely upon the information on the E-DIMS when performing its statutorily mandated audit of written requests for information that were denied based upon I.R.C. § 6103 or FOIA exemption (b)(7).

The audit tests also included a judgmental random sample of 140 cases from the E-DIMS at 4 Disclosure sites to determine the accuracy of specific data fields on the system. Seven of the 140 cases analyzed during the test had inaccuracies that affect the reliability of the population of cases from which the TIGTA will select its statistical samples for the statutorily mandated audit. In three of the seven cases, the case disposition (granted, no responsive records and partially denied) was not recorded accurately on the E-DIMS. In the remaining four cases, the type of case (FOIA or I.R.C. § 6103) was not accurately recorded on the system. We do not believe that these inaccuracies would materially affect the reliability of the system because there was only a five percent error rate and there was no systemic or common procedural cause for these inaccuracies. Accordingly, no corrective action is necessary.

Voluntary Extension Notification Procedures Should Be Changed to Ensure Revised Response Dates Are Accurately Input to the System

Disclosure personnel did not always accurately input the revised response date on the E-DIMS. A provision of the FOIA allows the IRS to ask for a voluntary extension of time to provide a response to a requester. If an extension is requested, Disclosure personnel must manually enter the revised response date on the E-DIMS because the system does not compute it automatically. Eight of 140 cases in the sample had revised response dates. In three of these cases, the revised response date was one day later than the extension period agreed to by the requester. This could affect a taxpayer's right to a timely response to a request for information. In the three cases with inaccurate dates, Disclosure personnel entered a revised response date using the same day of the month as that on the extension letter, but for the subsequent month, which was not always correct. For example, if the letter to the requester asking for a 30-day extension was dated March 14, 2000, the revised due date was entered on the E-DIMS as April 14, 2000, which is 31 days. While these cases do not affect the TIGTA's reliance on the system for its statutorily mandated audit work, clear guidance on establishing revised response dates

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could improve the reliability of information on the system and better protect taxpayers' rights.

Summary of Recommendation

We recommend that IRS Disclosure management change their current procedures to require Disclosure personnel to state the actual response date in voluntary extension letters, instead of the number of additional calendar days they are requesting.

Management's Response: Disclosure management agreed with our recommendation and has issued instructions to provide the actual date a response is expected on all voluntary extension letters and to input that date as the revised response date to the E-DIMS. A programming change will be made to ensure that the revised due date entered does not fall on a weekend or Federal holiday. Management's complete response is included as an appendix to this report.

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Objective and Scope

The overall objective of this review was to determine if the TIGTA can rely upon information contained on the E-DIMS.

The overall objective of this review was to determine if the Treasury Inspector General for Tax Administration (TIGTA) can rely upon information contained on the Electronic Disclosure Information Management System (E-DIMS) to be accurate and complete for the universe of cases that were denied on the basis of Internal Revenue Code (I.R.C.) § 6103 (2000) or the Freedom of Information Act (FOIA) exemption (b)(7).¹

On September 11, 2000, we received an E-DIMS extract from the Internal Revenue Service (IRS) that included all cases closed from October 1, 1999, through July 31, 2000. We reviewed cases selected from the extract for the IRS Headquarters Disclosure office, the former Georgia and Southwest Districts, and the Fresno Service Center. We also conducted interviews at each of the four sites. Our review was performed from September through November 2000 in accordance with the *Government Auditing Standards*.

Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

Background

Authorizations in the FOIA² and I.R.C. § 6103 are used by taxpayers to request information from the IRS. The FOIA requires that records of the federal government generally be available to the public upon request, unless specifically exempted. The FOIA exemption (b)(7) regulates the release of records or information compiled for law enforcement purposes. The I.R.C. § 6103

¹ 5 U.S.C. § 552(b)(7) (1996).

² 5 U.S.C. § 552 (1996).

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regulates the release of tax returns or tax return information and provides a mechanism for taxpayers to request this information or request for it to be disclosed to a designee.

Section 1102(d)(3)(a) of the IRS Restructuring and Reform Act of 1998 (RRA 98)³ requires the TIGTA to perform periodic audits of the appropriateness of the IRS' denials of taxpayers' written requests for information. In Fiscal Years (FY) 1999 and 2000, the TIGTA performed two separate reviews⁴ of denials of taxpayer requests to disclose information. During these reviews, the TIGTA did not verify whether or not the IRS' inventory control system was accurate and complete.

During the FY 1999 and FY 2000 reviews, the TIGTA selected cases from the Disclosure Information Management System (DIMS). This was a stand-alone system that each local disclosure office maintained. All reports from the DIMS were run locally and the data were not shared with other offices.

The IRS Disclosure function developed the E-DIMS, which is a national database of written requests for information.

In June 1999, the IRS Disclosure function began the implementation of a new management information system, the E-DIMS, which contains data regarding written requests for information. During implementation, cases contained on the DIMS were copied to the E-DIMS. The E-DIMS is a national database that allows Disclosure personnel to enter data directly into the system using the IRS Intranet and provides the local IRS offices with national query capabilities. The IRS is continuing to enhance this new management information system.

³ Pub. L. No. 105-206, 112 Stat. 702 § 1102(d)(3)(a).

⁴ *The Internal Revenue Service Needs to Improve Its Compliance with Procedures When Processing Requests for Information Under the Freedom of Information Act* (Reference Number 2000-10-058, dated March 2000) and *Responses to Taxpayers' Requests for Information Did Not Always Comply With the Freedom of Information Act or Internal Revenue Service Procedures* (Reference Number 2000-10-147, dated September 2000).

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Results

Overall, the TIGTA can rely upon IRS data for its statutory review of denied written requests for information.

Overall, the TIGTA can rely upon the information contained on the E-DIMS when performing the statutorily mandated audit of the appropriateness of the IRS' denials of taxpayers' written requests for information. The limited audit tests provided reasonable assurance that selected information on the E-DIMS is accurate and complete. For example, the system was 95 percent accurate for the information the TIGTA will use when performing its review of denied requests and 100 percent complete for the cases reviewed.

Corrective action is needed to ensure that revised response dates are accurately input to the E-DIMS. Although inaccurate revised response dates do not affect the TIGTA's reliance on the system for its statutorily mandated audit work, accurate input would improve the reliability of information on the system and better protect taxpayers' rights.

In addition, we identified two cases in which the IRS did not provide a response to the requester within the time period allowed by law, which is a potential violation of taxpayers' rights. In these two cases, the date by which the IRS should have responded to the requester was not correct on the E-DIMS. In one case, the date the IRS received the request was not accurately shown on the E-DIMS. Using this receipt date, the E-DIMS automatically computed a due date beyond the time allowed under the law. In another case, the E-DIMS incorrectly showed the date the response was due to the requester based upon a second voluntary extension request, instead of the first request. The FOIA allows federal agencies to request only one voluntary extension. Because the first case involves a typographical error and the second case involves an issue previously reported by

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the TIGTA,⁵ we are not making any recommendations to correct these two conditions.

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E-DIMS was 95 percent accurate and 100 percent complete for the data reviewed.

Limited testing of specific data fields on the E-DIMS identified a 95 percent accuracy rate for the information the TIGTA will use to perform its review of denied requests. Additionally, the audit tests provided reasonable assurance that the E-DIMS is complete. We selected a judgmental sample of 120 closed case files from 4 Disclosure sites and verified that all cases were recorded on the E-DIMS as required. We further determined that the E-DIMS contained cases from all local offices, as appropriate, for the audit period. These results provide reasonable assurance that the TIGTA can rely upon the information on the E-DIMS when performing its statutorily mandated audit of written requests for information that were denied based upon I.R.C. § 6103 or FOIA exemption (b)(7).

The audit tests also included a judgmental random sample of 140 cases from 4 Disclosure sites to determine the accuracy of specific fields on the system. Seven of the 140 cases analyzed during the test had inaccuracies that affect the reliability of the population of cases from which the TIGTA will select its statistical samples for the statutorily mandated audit. In three of the seven cases, the case disposition (granted, no responsive records and partially denied) was not recorded accurately on the E-DIMS. In the remaining four cases, the type of case (FOIA or I.R.C. § 6103) was not accurately recorded on the system. These inaccuracies

⁵ *Responses to Taxpayers' Requests for Information Did Not Always Comply With the Freedom of Information Act or Internal Revenue Service Procedures* (Reference Number 2000-10-147, dated September 2000).

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resulted in six cases being inappropriately included and one case being excluded from the population.

We do not believe that these inaccuracies would materially affect the reliability of the system because there was only a five percent error rate and there was no systemic or common procedural cause for these inaccuracies. Accordingly, no corrective action is necessary.

**Voluntary Extension Notification Procedures
Should Be Changed to Ensure Revised
Response Dates Are Accurately Input to the
System**

*Revised response dates were
not always accurately input to
the E-DIMS.*

Disclosure personnel did not always accurately input the revised response date on the E-DIMS. In some instances, revised response dates on the E-DIMS were later than the extension period agreed to by the requester. This could affect a taxpayer's right to a timely response to a request for information as provided by law.

A provision of the FOIA allows the IRS to ask for a voluntary extension of time to provide a response to a requester. Historically, the IRS has requested a 30 calendar day extension of time to fulfill a request. If an extension is requested, Disclosure personnel must manually enter the revised response date on the E-DIMS because the system does not compute it automatically. Disclosure management is responsible for using the E-DIMS to control FOIA inventory to ensure timely responses to requests for information.

Eight of 140 cases in the sample had revised response dates. In 3 of these cases, the revised response date was 31 days after the voluntary extension letter was issued, which was 1 day longer than the extension period agreed to by the requester. If the IRS sent the response to the requester based upon the due date on the E-DIMS (i.e., the 31st day), this could affect a taxpayer's right to a

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timely response to a request for information as provided by law.

In the three cases with inaccurate dates, Disclosure personnel entered a revised response date using the same day of the month as that on the extension letter, but for the subsequent month. For example, if the letter to the requester asking for a 30-day extension was dated March 14, 2000, the revised due date was entered on the E-DIMS as April 14, 2000, which is 31 days.

Depending on the number of days in a month, this process can result in a revised response date being entered on the E-DIMS as either 29, 30, or 31 days after the date on the voluntary extension letter.

Local Disclosure management at two sites stated that, to save time, they have historically entered the revised response date as the same day of the month as that on the extension letter, but for the subsequent month, which was not always correct. They were not aware of any national procedures that include this computation method but stated guidance in this area would be beneficial.

We estimate that, for the period under review, as many as 1,265 cases with voluntary extensions could have inaccurate revised response dates on the E-DIMS. This could affect Disclosure management's reliability on the system and potentially result in untimely responses to requests for information. While this does not affect the TIGTA's reliance on the system for its statutorily mandated audit work, clear guidance on establishing revised response dates could improve the reliability of information on the system and better protect taxpayers' rights.

On August 31, 2000, national procedures were revised to eliminate the standard 30 calendar day period requested in an extension letter. Instead, the procedures now state that an appropriate time period should be requested on a case-by-case basis. However, this procedural change does not eliminate the cause of inaccurate response dates being entered into the E-DIMS

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if the practice of using the same date in a future month is followed.

Recommendation

1. The Director, Governmental Liaison and Disclosure, should issue procedural instructions to Disclosure personnel requiring them to state the actual response date in voluntary extension letters, instead of the number of additional calendar days they are requesting. The exact response date cited in the voluntary extension letter could then be input to the E-DIMS as the revised response date.

Management's Response: Disclosure management has issued instructions to provide the actual date a response is expected on all voluntary extension letters, and to input that date as the revised response date to the E-DIMS. A programming change will be made to ensure that the revised due date entered does not fall on a weekend or Federal holiday.

Conclusion

The TIGTA can rely upon the information contained on the E-DIMS when performing the statutorily mandated audit of the appropriateness of the IRS' denials of taxpayers' written requests for information. However, clear guidance on establishing revised response dates could improve the reliability of information on the system and better protect taxpayers' rights.

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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine if the Treasury Inspector General for Tax Administration (TIGTA) can rely upon information contained on the Electronic Disclosure Information Management System (E-DIMS) to be accurate and complete for the universe of cases that were denied on the basis of Internal Revenue Code (I.R.C.) § 6103 (2000) or the Freedom of Information Act (FOIA) exemption (b)(7).¹ Specifically, we:

- I. Determined whether or not case information input to the E-DIMS was accurate.
 - A. Interviewed National Disclosure office personnel to determine if any national procedures/guidelines were issued involving the coding of cases or the inputting of data to the E-DIMS.
 - B. Interviewed local Disclosure office personnel at four offices to identify the process for controlling information requests and entering information to the E-DIMS and to review any local procedures for determining the proper coding of cases.
 - C. Obtained a national download of 41,311 cases representing 100 percent of the cases on the E-DIMS closed from October 1, 1999, through July 31, 2000, involving the FOIA,² Privacy Act of 1974 (PA),³ taxpayer designee (I.R.C. § 6103(c)), or taxpayer with a material interest (I.R.C. § 6103(e)) information requests (E-DIMS case types 1, 2, 4, or 7, respectively), and validated this download to ensure it contained the information requested from Internal Revenue Service (IRS) management.
 1. Selected a judgmental random sample of 20 closed FOIA/PA cases at each of the 4 offices and 20 closed I.R.C. § 6103(c) and (e) cases at 3 of the offices from the national download (for a total of 140 cases).
 - a) Determined whether data input to the E-DIMS were accurate by reviewing case file documentation to verify the Case Type, Sub Type (for FOIA cases only), Received

¹ 5 U.S.C. § 552(b)(7) (1996).

² 5 U.S.C. § 552 (1996).

³ 5 U.S.C. § 552a (1994).

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- Date, Due Date (computer-generated), Voluntary Extension Sent Date, Revised Due Date, Disposition, Exemptions, (b)(3) Support, and Closed Date fields.
 - b) Determined why files for any cases selected above could not be located.
 - c) Discussed any inaccuracies or inconsistencies with Disclosure management to determine why cases were inaccurately coded.
- II. Determined whether or not case information input to the E-DIMS was complete.
 - A. Selected a judgmental sample of 30 closed cases from paper case files at each of the 4 local Disclosure offices (for a total of 120 cases).
 - 1. Researched the E-DIMS to determine whether the sample cases were recorded on the system.
 - B. Determined whether or not all local Disclosure offices had cases on the E-DIMS, as appropriate.
 - 1. Obtained the volume of cases in each local Disclosure office from the E-DIMS for October 1, 1999, through July 31, 2000, to determine whether case closures were being reported on the E-DIMS for each Disclosure office.
 - 2. Determined why some offices did not have any case volumes on the E-DIMS, if necessary, by contacting National Disclosure management.
- III. Determined whether or not the TIGTA could rely upon information contained on the E-DIMS when performing the statutorily mandated review of determinations made by the IRS to deny written requests for information from taxpayers.
 - A. Determined if testing performed in Objectives I and II provided sufficient assurance for the TIGTA to rely upon the E-DIMS when selecting a statistical sample of cases denied on the basis of I.R.C. § 6103 or FOIA exemption (b)(7).

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Appendix II

Major Contributors to This Report

Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)
Nancy Nakamura, Director
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Thomas Seidell, Senior Auditor
Margaret Anketell, Auditor
Donald Martineau, Auditor
Michael McGovern, Auditor
Jeffery Smith, Auditor

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Appendix III

Report Distribution List

Commissioner N:C
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National Taxpayer Advocate TA
Area Manager, Governmental Liaison and Disclosure Area 2 CL:GLD
Area Manager, Governmental Liaison and Disclosure Area 3 CL:GLD
Area Manager, Governmental Liaison and Disclosure Area 6 CL:GLD
Area Manager, Governmental Liaison and Disclosure Area 7 CL:GLD

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Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective action will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

- Taxpayer Rights – Potential: 1,265 Freedom of Information Act (FOIA)¹ and Privacy Act (PA)² taxpayer information requests may not be responded to timely based on an inaccurate revised response date recorded on the Electronic Disclosure Information Management System (E-DIMS) (see page 5).

Methodology Used to Measure the Reported Benefits:

There were 2,168 FOIA and PA cases with revised response dates closed between October 1, 1999, and July 31, 2000. This represents the population of cases at risk (i.e., cases that potentially include erroneous revised response dates). However, this error condition affects only the accuracy of the revised response date field and potentially affects the timeliness of responses to taxpayers when the extension letter is issued during a month with 31 days. Due to limitations in the E-DIMS database, we could not determine the actual number of cases in which extension letters were issued during a month with 31 days. To be conservative in determining the estimated number of cases that could be at risk, we adjusted the number of cases with revised response dates by the ratio of months that contain 31 days (7 out of 12 months),³ as shown below:

2,168 cases X (7/12 months) = 1,265 cases.

¹ 5 U.S.C. § 552(b)(7) (1996).

² 5 U.S.C. § 552a (1994).

³ Although the 2,168 cases were closed during a 10-month period, voluntary extension letters associated with these cases were issued throughout a 12-month period. These cases had revised response dates occurring between December 1998 and September 2000 (i.e., there were revised response dates for every month throughout this period). As a result, we used a ratio of 7/12 to estimate the number of cases that could be at risk.

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Appendix V

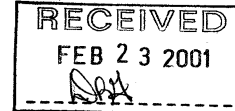
Management's Response to the Draft Report



CHIEF COMMUNICATIONS
AND LIAISON

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

February 23, 2001



ECMS#-0101-4T4LS9YC

MEMORANDUM FOR PAMELA J. GARDINER
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: David R. Williams 
Chief Communications and Liaison

SUBJECT: Treasury Inspector General for Tax Administration
(TIGTA) Draft Report - The Treasury Inspector General
for Tax Administration Can Rely Upon Data on the
Electronic Disclosure Information Management System
For Its Statutory Review (Audit No. 199910114)

We are pleased that your review of our E-DIMS system validated its accuracy and reliability. The E-DIMS system does provide us with an extremely flexible nationwide reporting capability. We are continuing to expand the system to capture more definitive operational data and are pleased that we were able to incorporate your suggested improvement.

IDENTITY OF RECOMMENDATION/FINDING #1: The Director, Governmental Liaison and Disclosure, should issue procedural instructions to Disclosure personnel requiring them to state the actual response date in voluntary extension letters, instead of the number of additional calendar days they are requesting. The exact response date cited in the voluntary extension letter could then be input to the Electronic Disclosure Information Management System (E-DIMS) as the revised response date.

CORRECTIVE ACTION#1: We concur with the findings of the report. We believe that E-DIMS is reliable and have a high confidence level in the data retrieved from the system. We concur with the recommendation on the report and have already taken corrective action. We issued instructions to disclosure staff to provide the actual date a response is expected on all voluntary extension letters to FOIA requesters, and to input that date as the revised due date on E-DIMS. A programming change will be made to E-DIMS by April 1, 2001, to ensure that the revised due date entered is not a Saturday, Sunday or Federal holiday. In addition, a programming change already completed properly calculates the original due date for FOIA requests using 20 business days as required by statute, rather than the 28 calendar days previously used.

If you have any questions please contact me at (202) 622-5440, or a member of your staff can contact Tom Marusin at (202) 622-6200.